

Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 CIAE-00 DODE-00 PM-04 H-02 INR-07 L-03

NSAE-00 NSC-05 PA-01 PRS-01 SP-02 SS-15 USIA-06 SAJ-01

AID-05 COME-00 EB-07 FRB-03 TRSE-00 XMB-02 OPIC-03

CIEP-01 LAB-04 SIL-01 OMB-01 STR-04 CEA-01 /092 W

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R 141527Z NOV 75

FM AMEMBASSY ANKARA

TO SECSTATE WASHDC 1348

INFO AMCONSUL ADANA

AMCONGEN ISTANBUL

AMCONSUL IZMIR

C O N F I D E N T I A L ANKARA 8459

FOR ASSISTANT SECRETARY HARTMAN

E.O. 11652: GDS

TAGS: EFIN, PINT

SUBJECT: SHARP DETERIORATION IN TURKEY'S FOREIGN
EXCHANGE SITUATION

1. MY RECENT TELEGRAM (ANKARA 8214) FOCUSSED ON THE CURRENT CYPRUS AND US-TURKISH SECURITY SITUATION. IT ALSO MENTIONED WITHOUT GOING INTO DETAILS A SERIES OF OTHER PROBLEMS OF CONSIDERABLE IMPORTANCE THAT HAVE BEEN VIRTUALLY NEGLECTED BECAUSE OF THE WEAKNESS OF THE PRESENT GOVERNMENT AND ITS SEVERAL PREDECESSORS. PARAMOUNT AMONG THESE IS TURKEY'S DETERIORATING ECONOMIC SITUATION. I KNOW YOU HAVE NOT HAD TIME TO GO THROUGH OUR RECENT REGULAR ECONOMIC REPORTS WHICH HAVE DESCRIBED THIS SITUATION IN DETAIL, BUT IN THE MONTHS AHEAD IT WILL BE USEFUL FOR YOU TO BE AWARE OF THE GENERAL SITUATION OUTLINED BELOW.

2. INFLATION IN TURKEY IN RECENT YEARS HAS BEEN AMONG
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THE HIGHEST IN THE WORLD. ALTHOUGH THERE HAS BEEN A SLIGHT

IMPROVEMENT FROM THE WORST PERIOD, LAST YEAR, IT IS STILL AROUND 24 PERCENT. THE TURKISH BUDGET WILL SHOW A STAGGERING DEFICIT OF NEARLY \$2 BILLION THIS YEAR. RECENT GOVERNMENTS HAVE VOTED INCREASES IN SOCIAL BENEFITS, SUBSIDIES, ETC. WITHOUT CONSIDERING REVENUES TO COVER THEM. BORROWING FROM THE CENTRAL BANK TO FINANCE THE BUDGET ADDS TO ALREADY SHARP INFLATION. OFFICIAL FIGURES WHICH ARE BELIVED TO CONSIDERABLY UNDERSTATE THE SITUATION SHOW UNEMPLOYMENT AT ALMOST 12 PERCENT OF THE LABOR FORCE. THE CESSATION OF RECRUITMENT OF NEW MIGRANT WORKERS BY WESTERN EUROPEAN COUNTRIES AND THE GRADUAL ATTRITION OF THE NUMBER OF TURKISH WORKERS THERE IS FURTHER AGGRAVATING UNEMPLOYMENT HERE. REMITTANCES FROM TURKISH WORKERS WHICH ARE A MAJOR COMPONENT IN TURKEY'S BALANCE OF PAYMENTS HAVE STARTED TO FALL OFF. THE DEFICIT ON TRADE WILL REACH ABOUT \$3.5 BILLION THIS YEAR, A FOURFOLD INCREASE SINCE 1973. TURKEY'S GOLD AND INTERNATIONAL RESERVES WHICH HAD REACHED A COMFORTABLE LEVEL OF OVER \$2 BILLION IN 1973 AND EARLY 1974 HAVE SHARPLY DETERIORATED. OFFICIALLY THESE RESERVES STAND AT \$1.18 BILLION. THIS LEVEL HAS BEEN MAINTAINED , HOWEVER, ONLY BY GOT MEASURES WHICH HAVE ATTRACTED ALMOST \$900 MILLION IN SHORT TERM "CONVERTIBLE LIRA" DEPOSITS. MOST OF THESE OBLIGATIONS MUST BE REPAID BY THE MIDDLE OF NEXT YEAR UNLESS THEY CAN BE RENEWED. US AND OTHER INTERNATIONAL BANKERS ARE WATCHING THE SITUATION CLOSELY AND HAVE ADOPTED A CAUTIOUS POLICY, WITH MANY LIMITING NEW LOANS TO TURKEY, IF ANY, TO SPECIAL SITUATIONS. SOME EVEN PREDICT THAT THERE WILL BE A DEFAULT BY NEXT SUMMER. I AM NOT QUITE SO PESSIMISTIC. NEVERTHELESS I BELIEVE THE SITUATION WITH RESPECT TO TURKEY'S INTERNATIONAL PAYMENTS AND RESERVES WILL CONTINUE TO BE VERY WORRISOME, AND I DO NOT DISCOUNT THE POSSIBILITY THEREFORE THAT THE GOT MAY BE IN NEED OF SOME SIGNIFICANT "BAIL-OUT" ASSISTANCE FROM SOME QUARTER WITHIN THE NEXT YEAR OR TWO.

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